

The People of AT&T

People are the heart and soul of any company. AT&T is no exception.

But the heart and soul of its people does make AT&T exceptional. From ensuring that the world's most powerful network is always ready to help customers make important connections, to giving time and talent to local communities, AT&T people are truly special. Here are just some of their noteworthy accomplishments from 1997.

– Some 300 Network and Computing Services people last year took on the unenviable task of trying to make the best better. When network managers determined more capacity was needed to maintain AT&T's high network performance standards, people worked overtime and weekends to get the job done. Result: During 1997, AT&T added more capacity than we had in the

bringing exciting multimedia services into customers' living rooms. Late last year, Labs people debuted their new "launch and learn" mode of nurturing promising ideas and technologies by inviting the public to take part in testing them. Howie Singer, Larry Miller and a small Labs team launched a highly successful Internet music trial called "a2b Music™" (<http://www.a2bmusic.com/>). In partnership with leading record label BMG, the trial lets consumers download and play CD-quality music. The trial is evaluating industry-leading technologies from Jim "JJ" Johnston, Jack Lacy and many other AT&T Labs people that may someday revolutionize the way customers buy, promote and sell soft goods on the Internet.

– A father received a long-distance call informing him his daughter had been taken to Holy



entire network at the end of 1991. The AT&T network handles an average of 250 million call attempts on a typical business day.

– The 2,000 people of AT&T Labs are using their expertise in information processing and communications technologies to create the future for AT&T and its customers – whether that future is next week or the next millennium. For example, they're working on the network of the 21st century, combining the quality and reliability of today's phone network with the flexibility and efficiency of the Internet. They're creating new services, such as a prototype that combines telephony with the World Wide Web so that people can, for example, send and receive e-mail over the phone. And they're working on technologies that will expand the capacity of the "last mile" to the home,

Cross Hospital following an accident. With only the first three digits of a phone number, no area code and a thought that the hospital was probably in the Baltimore area, the man would have had a problem using traditional directory assistance. But thanks to AT&T's "00" INFO (pronounced "double oh info") service, he was able to find and check on his daughter with relative ease. Providing personalized, world class customer care is an AT&T priority in serving both our business and consumer customers. AT&T's "00" INFO is a consumer customer care innovation unveiled last year in 23 states, as well as nationally to AT&T Calling Card customers. The service specializes in obtaining listings for customers who sometimes have sketchy information.

– AT&T people helped the company achieve millions of dollars in cost avoidance in 1997 through

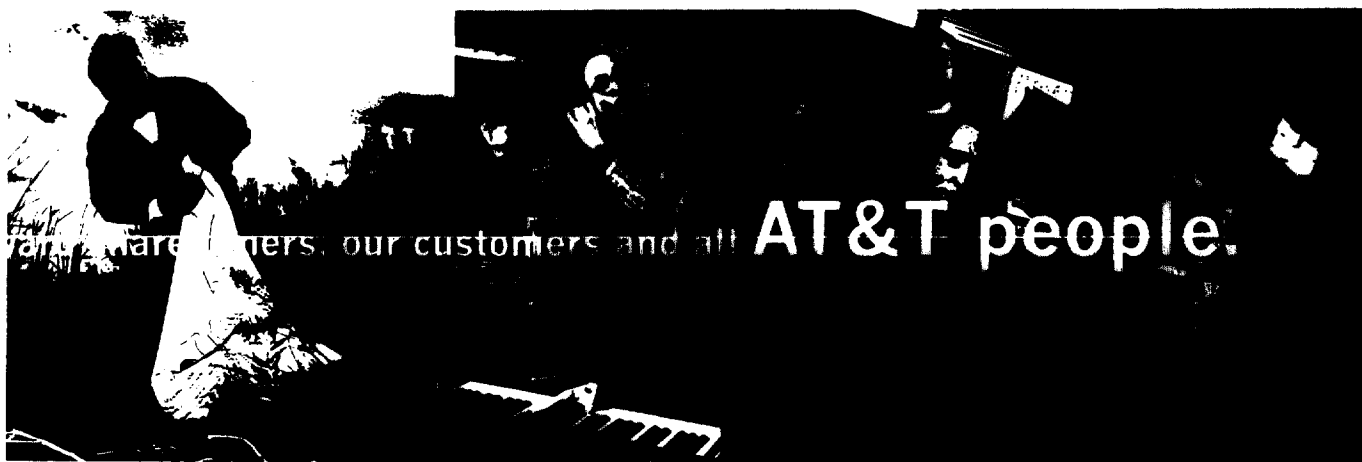
OWN IT!, a new way of doing business at AT&T. Through individual and team efforts, people from all over the company latched on to the concept of acting like owners of the business. From the way office equipment is purchased to the way meetings are conducted, AT&T people are dedicated to finding and implementing the most efficient, cost-effective ways of doing business.

— One of AT&T's finest traditions — the spirit of service — has been kept alive and shining through AT&T CARES, the most ambitious volunteer community service program ever undertaken by an American corporation. The program gives all AT&T people a paid workday in which they may volunteer in their local communities. By the time the initiative hit its one-year anniversary in November, more than 50 percent of AT&T people donated over

Denis Boyle, a manager in Bridgewater, New Jersey, was awarded the Silver Vail Medal for a selfless act when, during a day at the beach, he spotted a teenage boy being dragged out into the ocean by a rip tide. He enlisted the aid of a nearby swimmer while his wife alerted lifeguards. Boyle reached the boy and brought him back to shore.

Carla Leyva, a bilingual operator from an AT&T Call Servicing Center in Odessa, Texas, received a Silver Vail Medal for her bravery and quick thinking when she encountered a young woman on the ground in a local park, struggling with a man armed with a knife and gun. Leyva started shouting and was able to scare the man away before the victim sustained serious injuries.

A cash award accompanies the medal — \$5,000 for bronze, \$10,000 for silver and \$20,000 for gold.



300,000 hours in eight countries and 43 U.S. states. They wired schools for the Internet, cleaned parks and play grounds, built housing for the homeless and more. AT&T was one of three large corporations selected by the Points Foundation for Excellence in Community Service in 1997. Thanks to the AT&T CARES program's tremendous success, it's been extended for another year.

— Because of exceptionally heroic deeds, three people were recognized by AT&T in 1997 with the Vail Award, named for AT&T's first president, Theodore N. Vail.

Barbara Harrod, an AT&T associate in Orlando, Florida, risked her life to save three people involved in a head-on collision between a van and a car: a toddler and the child's mother, who were both in the van, and the driver of the car. Harrod received a Gold Vail Medal, the first awarded in 10 years.

Our Common Bond — We commit to these values to guide our decisions and behavior:

Respect for Individuals

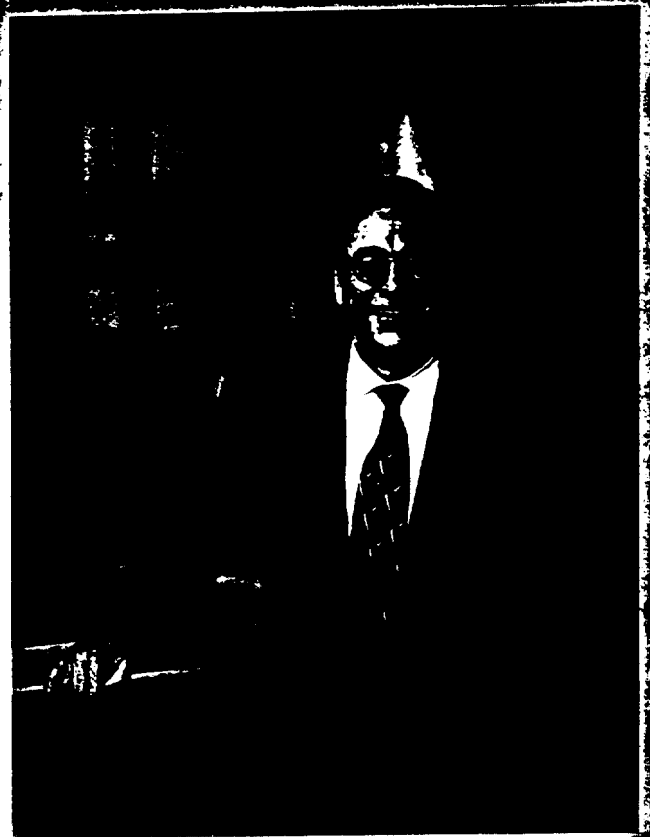
Dedication to Helping Customers

Highest Standards of Integrity

Innovation

Teamwork

By living these values, AT&T aspires to set a standard of excellence worldwide that will reward our shareowners, our customers and all AT&T people.



24.

In 1997, we defined AT&T's direction and focused on the growth opportunities that would build shareowner value in the short and long term.

Our financial philosophy was simple and direct: build on our strengths.

We defined and examined our core businesses. We invested in the assets that would help our branded core businesses grow. And, we began to use our assets as competitively as possible by establishing best-in-class cost structure targets.

As we focused on strengthening the core, we also continued our program to sell the businesses that we determined were "non-mission critical." We divested these non-strategic assets to give management the time and energy to focus on growth and execute the strategy.

We accelerated our long-term strategy by investing in profitable new business initiatives to respond to customer demands for universal communications and our shareholders' expectation for growth.

At the end of the financial review, a company with total management's \$51 billion in sales, earnings before taxes, depreciation and amortization (EBITDA) of \$10 billion, operating income of \$7 billion, net income of \$4 billion, \$8 billion in operating cash flow, and our strongest balance sheet in decades. It shows our work in progress to redefine the greatest communications company in the world.

Dan Somers

Chief Financial Officer

February 24, 1998

What it all means: In reporting our 1997 operating results, we have made certain adjustments in order to assist readers in understanding the key drivers of our business. First, in order to distinguish the performance of AT&T's established businesses from the dilutive impacts of investments in new business areas, we present certain information in terms of "core" businesses and "initiatives." Core businesses include: business and consumer long-distance services, wireless voice services in existing 850 MHz markets, messaging, air-to-ground services and wireless product sales. Initiatives include: local service, wireless service in new 1.9 GHz markets; wireless data services; online services such as AT&T WorldNet®; the AT&T Solutions outsourcing, consulting and networking integration professional services business, and international markets (excluding bilateral traffic). Note that all financial data presented on a "core" and "initiatives" basis should be considered approximate. Data on initiatives include costs and expenses on an incremental basis and require

certain estimates and allocations that management believes provide a reasonable basis on which to present such information.

Also, as required by generally accepted accounting principles, our financial statements include only the results of continuing operations. The results of certain businesses AT&T has divested and AT&T Universal Card Services, Inc. (UCS), which in the fourth quarter we agreed to sell to Citicorp (Citibank), are represented as "Income from discontinued operations" (net of applicable taxes), "Net assets of discontinued operations," and "Net cash used in discontinued operations." In 1997 discontinued operations included the results of UCS. The results of AT&T's former submarine systems business, sold to Tyco International Ltd. in July, are also included in discontinued operations. In 1996 and 1995 discontinued operations included Lucent Technologies Inc. (Lucent), AT&T Capital Corporation (AT&T Capital), NCR Corporation (NCR) and other businesses.

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January 1, 1997, marked a beginning for AT&T. The challenge of completing the "trivestiture" was behind us and we entered the new year as a new company – one better focused and prepared to face the increasingly competitive and dynamic telecommunications industry. As our experience in 1997 proved, however, the most challenging period in this company's history did not end with trivestiture. Rather, we had just begun the work needed to position ourselves strategically and financially in order to grow profitably in the years to come.

Change and complexity characterized the industry in 1997. New services continued to emerge – services like voice over the Internet and Internet Protocol (IP) networks. Digital technology continued to revolutionize the wireless communications business. Demand for data transmission services such as frame relay multiplied, and corporations demanded help managing their ever more complex, more global telecommunications needs. The maze of regulatory issues impacting our business grew more and more intricate. Even the very structure of the industry changed as companies from all parts of the industry looked for partners to help them become providers of complete offerings of telecommunications services.

As if all this wasn't challenging enough in 1997, competition intensified in our long-distance and wireless businesses where we faced some of the stiffest competitive conditions around. Aggressive industry pricing practices put pressure on our margins in long-distance services for businesses. The competition used price and innumerable other tactics to attack our residential base and new competitors entered wireless markets all over the country with aggressive offers.

Our mission for 1997 was to take the critical actions needed to prepare AT&T for the future. Our ultimate ability to deliver shareholder value depends on the strategic position and the financial strength and flexibility that we create for ourselves today. But we also understand the need to balance concern for the future with our investors' expectations for solid financial performance in the present.

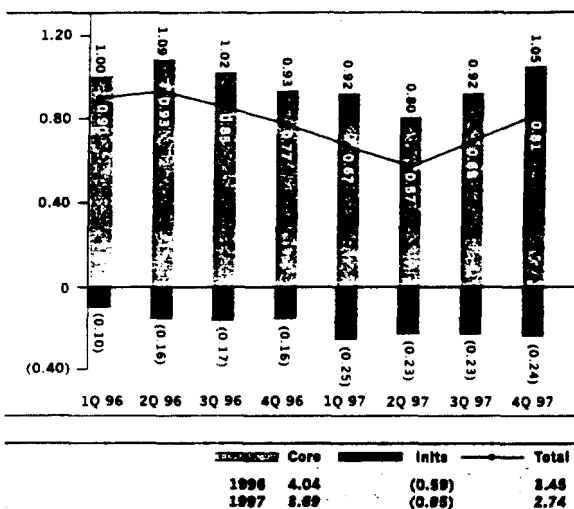
So in 1997, we did invest for the future. We invested in our local service initiative which reduced earnings before interest and taxes (EBIT), including other income, and earnings before interest, taxes, depreciation and amortization (EBITDA), including other income, by over \$900 million each and reduced earnings per share by about \$0.37. We did not get the return we wanted on this investment, so we made the important economic decision to discontinue our efforts to sell local service to residential customers on a total services resale basis. We remain committed to providing local service to our residential customers, but only when an economically viable means of doing so can be developed. On the business side, we accelerated our local entry in January 1998 when we executed a merger agreement with Teleport Communications Group, Inc. (TCG), the largest competitive local exchange carrier. TCG brings to AT&T local facilities in 66 of the top U.S. markets, along with the management

expertise we need to win in the business local market. The TCG deal, valued at about \$11 billion, is expected to generate over \$1 billion in synergies in 1999, growing to \$2.2 – \$2.5 billion in 2002. Under the agreement each share of TCG will be exchanged for .943 of an AT&T share. The merger, which remains subject to regulatory approval and certain other conditions, is expected to close in the second half of 1998.

We also continued to develop businesses that are important to our long-term success. These businesses include international markets (excluding bilateral traffic), AT&T Solutions – our outsourcing, consulting and networking integration professional services business; AT&T WorldNet – our Internet access service for homes and businesses, and wireless service in new 1.9 GHz markets. We invested heavily in these businesses in 1997; they further reduced AT&T's EBIT by over \$1.5 billion, EBITDA by more than \$1.2 billion and earnings per share by about \$0.58 for the year.

AT&T Two-Year EPS* Trend

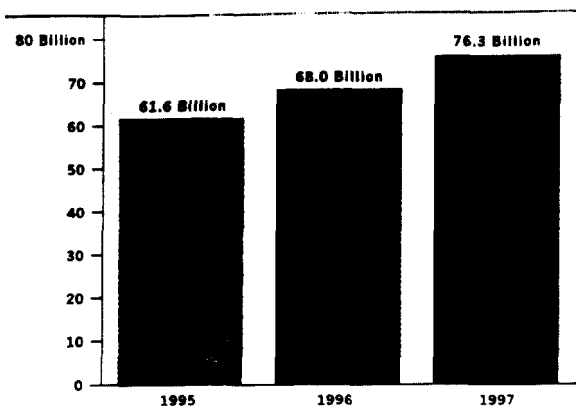
Dollars



* All earnings per share information in this discussion is presented on a diluted basis, meaning that the share balance used in the calculation includes shares outstanding plus shares that may be issued as a result of the exercise of options.

We continued to invest in our core long-distance business as well. The AT&T network handled a record volume of traffic in 1997, including a new one-day record of 319 million calls on the Monday after Thanksgiving. Approximately 99.96% of these calls were completed on the first try. In order to maintain this level of capacity and reliability, as well as respond to new demands, we invested the majority of our capital spending in 1997 in the long-distance network, deploying Synchronous Optical Network (SONET) technology rings across the country and increasing the capacity of our data networks.

Number of Calls on the Network



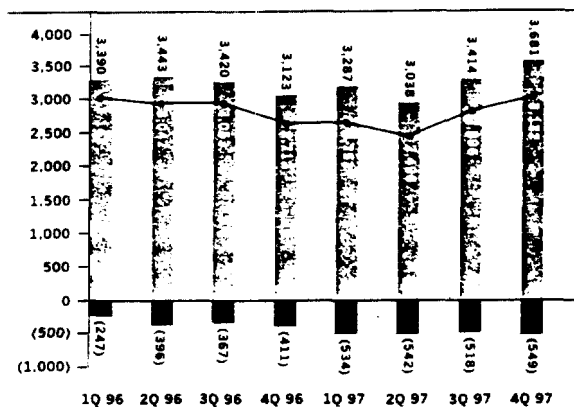
All this investment, plus the effects of competition on our core long-distance and wireless businesses, put a strain on our financial performance. As a result, our 1997 earnings were down from the prior year, as explained below in the discussion of our financial results for the year. But again, we recognize the need to balance investment with current earnings and to have maximum financial flexibility in this growing industry. Therefore, we moved aggressively to shore up our financial position and stabilize our earnings. We continued to divest assets and businesses not critical to our long-term strategy. We completed the sales of AT&T Tridom, AT&T Skynet, our submarine systems business and our investment in DirecTV. We reached agreements to sell UCS, AT&T Solutions Customer Care, and our holdings of LIN Television Corporation and WOOD-TV. We also reduced our strategic investment in Smartone Communications. All told, we expect these transactions to generate about \$6.7 billion in cash for AT&T (pretax). As a result, our already solid balance sheet will become even stronger.

In order to deliver on the earnings expectations of our investors and to position ourselves for the future, we attacked our cost structure aggressively in 1997 and intend to do a lot more in 1998 and beyond. As a result of our cost reduction efforts, our selling, general and administrative (SG&A) expenses declined in the fourth quarter of 1997. Our earnings, after hitting the low-water mark in the second quarter, showed sequential improvement in the third and fourth quarters. EBITDA also trended upward in the second half, as the chart at the right shows. Further, we expect to reduce SG&A by \$1.6 billion in 1998 and our goal is to achieve a level of SG&A expenses equal to 22% of revenues by the end of 1999.

On January 26, 1998, we announced a voluntary retirement incentive program to be offered to managers during the second quarter of 1998. The expected acceptance rate of 10,000 to 11,000 employees for the voluntary retirement incentive offer may impact the utilization of the remaining 1995 restructuring reserve balance. Another 5,000 to 7,000 employees will leave through a combination of managed attrition and previously announced workforce reductions.

AT&T Two-Year EBITDA Trend

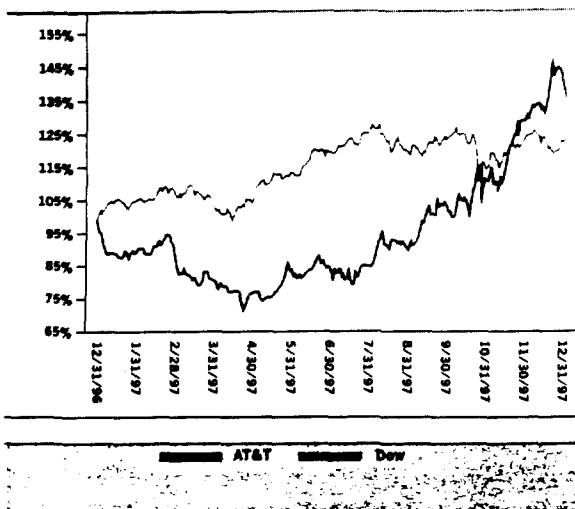
Dollars in Millions



	1996	1997
EBITDA	11,376	11,377
SG&A	(2,421)	(2,143)
Operating Income	8,955	9,234

Shareowners recognized our efforts in 1997. AT&T was the top performing stock in the Dow Jones Industrial Average (DJIA) for the six months ending December 31, 1997, and had the seventh-highest appreciation among the Dow stocks for the full year. Our stock generated a total return, including dividends, of over 53% in 1997. We hope to continue to produce a high return in 1998 and beyond by delivering earnings growth.

AT&T Performance vs. DJIA in 1997



Operating Results

Our income from continuing operations decreased \$1,101 million, or 19.8%, in 1997 and increased \$506 million, or 10.0%, in 1996. Lower earnings from the core business and increased dilution from investment in initiatives contributed almost equally to the decline in earnings in 1997. Core earnings were lower due primarily to higher depreciation and amortization expenses driven by higher levels of capital investment. In 1997 we invested \$7.2 billion in capital, the majority of which was directed toward increasing the capacity and technology of our long-distance and wireless networks, including the installation of SNET facilities. We expect to complete our SNET program in 1998 with a total of 52 rings providing coast-to-coast connectivity. Our local service efforts and our expansion into new wireless markets were the primary drivers of the increase in dilution from initiatives in 1997.

In 1995 our core business recorded pretax charges of \$3,023 million of restructuring and other charges. The charges covered consolidating and reorganizing numerous corporate and business units over several years. The total pretax charge was recorded as \$844 million in network and other communications services expenses, \$934 million in depreciation and amortization expenses, and \$1,245 million in selling, general and administrative expenses. The tax benefit associated with the charges was \$991 million. The total impact on income from continuing operations was \$2,032 million, or \$1.28 per share. The impact on income from discontinued operations was \$3,321 million, or \$2.08 per share. The impact on net income was \$5,353 million, or \$3.36 per share. Discussions presented here exclude the impact of these charges unless noted.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Income from Continuing Operations	\$ 4,472	\$ 5,573	\$ 5,067
Income from Discontinued Operations	100	173	425
Gain on Sale of Discontinued Operations	66	162	-
Net income	\$ 4,638	\$ 5,908	\$ 5,492

Earnings Per Share - Diluted:

Income from Continuing Operations	\$ 2.74	\$ 3.45	\$ 3.19
Income from Discontinued Operations	0.06	0.11	0.26
Gain on Sale of Discontinued Operations	0.04	0.10	-
Net Income	\$ 2.84	\$ 3.66	\$ 3.45

Earnings Per Share - Diluted:

Core	\$ 3.69	\$ 4.04	\$ 3.40
Initiatives	(0.95)	(0.59)	(0.21)
Total Continuing Operations	\$ 2.74	\$ 3.45	\$ 3.19

* Excludes restructuring and other charges

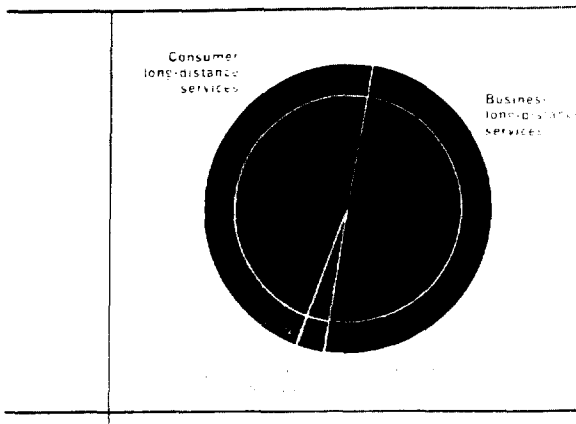
Income related to discontinued operations, including gains on disposals, was \$166 million in 1997 and \$335 million in 1996. As of December 31, 1997, UCS is the only business remaining in discontinued operations. We completed the sale of our submarine systems business in the third quarter of 1997, and in 1996 we successfully divested Lucent, NCR, AT&T Capital and other businesses.

Revenues

We reported our 1997 revenues in five categories: business and consumer long-distance services, wireless services, local and other initiatives, and other and eliminations. Total revenues grew \$773 million, or 1.5%, in 1997 and \$2,101 million, or 4.3%, in 1996.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Business long-distance services	\$ 22,212	\$ 21,591	\$ 20,496
Consumer long-distance services	23,962	24,650	24,299
Wireless services	4,337	3,931	3,368
Local and other initiatives	2,226	1,569	1,393
Other and eliminations	(1,418)	(1,195)	(1,111)
Total revenues	\$ 51,319	\$ 50,546	\$ 48,445

AT&T 1997 External Revenue by Category



Business long-distance services revenue, made up primarily of revenue from voice and data services, and related products sales, increased \$621 million, or 2.9%, in 1997 and \$1,095 million, or 5.4%, in 1996. Adjusted for the sales of AT&T Skynet and AT&T Tridom, business revenue grew 3.5% in 1997. Strong growth in revenue from data services – frame relay and other emerging services as well as private line – drove the increase in business revenue. Revenue growth from voice services was hampered by pricing pressure brought on by a number of factors. Many voice service contracts were renegotiated during the year, encouraged by uncertainty surrounding the possibility of detariffing. Competitive pressure caused many of these contracts to be renegotiated at lower rates. Also, reductions in access costs were passed to customers in the form of lower rates, further pressuring revenue growth. Revenue growth in 1996 was fueled by both strong growth in business inbound (toll-free 800 and 888 services) and data services.

Calling volume, or billed minutes, in business long-distance services grew in the mid-teens in both 1997 and 1996, both led by strong volume growth in inbound services as well as growth in outbound services and government markets. Despite very competitive conditions, we held our market position in business services with such major contract wins as American Express, Prudential, CVS, American Home Products and the State of Florida. Again, lower price levels on voice contracts substantially offset the growth in calling volume though the pricing environment began to show signs of stabilization in the fourth quarter of 1997.

Consumer long-distance services revenue declined \$688 million, or 2.8%, in 1997 and increased \$351 million, or 1.4%, in 1996. However, our 1997 revenue growth was impacted by a number of strategic choices intended to improve profitability. For instance, we accelerated the use of

free minutes as a customer incentive in 1997, increasingly using them in place of checks. Since free minutes are presented as contra-revenue on the income statement while checks are classified as expense, our move toward free minutes served to reduce revenue growth. This shift, plus the effects of flowing savings from access reform through to customers resulting in lower prices, accounted for 2 percentage points of the 2.8% decline in revenue. The remaining decline was primarily due to another move designed to improve long-term profitability – the migration of customers to more favorable optional calling plans. This is a key element in our strategy to retain our most profitable customers. Partially offsetting the declines was growth in intraLATA, or local-toll services. Presubscription processes allowing customers to choose AT&T as their preferred local-toll carrier helped revenue from these services grow substantially in 1997. In 1996 the increase in consumer revenue was driven by price increases instituted throughout the year.

Another element in our strategy to attract and retain the most profitable residential customers and to improve our bottom line was to refine our marketing efforts in the second half of the year so that the customer base we targeted for acquisition would not include customers who are not profitable to us. While not having a material impact on consumer revenue or volume for the full year 1997, this strategic shift may cause further pressure on these measures in the future.

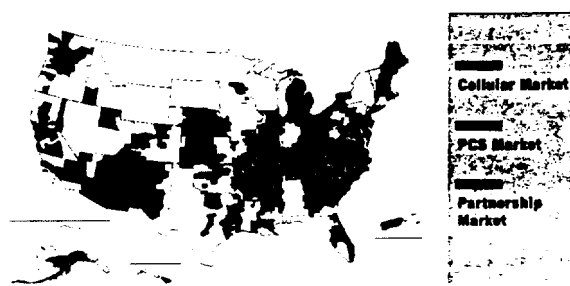
Consumer calling volume increased by a low-single-digit percentage in 1997 compared with a decrease of a similar magnitude in 1996. The increase was due to strong growth in intraLATA volume, again as a result of capturing the opportunity offered by local-toll presubscription, while in 1996 declines in domestic volumes were partially offset by growth in international volumes.

Total long-distance services revenues – the sum of the business and consumer categories – was \$46,174 million in 1997, essentially flat compared to \$46,241 million in 1996. Volume increased 8.7% for the year. In 1996 long-distance revenues increased \$1,446 million, or 3.2%, on a volume increase of 5.9%. The gap between volume and revenue growth widened to 8.8% in 1997 due to the revenue factors mentioned above, including the flow-through of access-charge reductions, and also due to the growth in lower-priced services such as intraLATA. The 1996 gap reflected the impact of promotional discounts, increased movement of customers to optimal calling plans and increased discounts given to large accounts. In addition, international volumes increased in 1996 while international revenue remained relatively flat.

Wireless services revenue, which includes wireless voice and data, messaging, air-to-ground services and product sales, increased \$406 million, or 10.3%, in 1997. Revenue from AT&T's new 1.9 GHz markets is included in this figure, although its impact on the annual growth rate was minimal. Adjusted for the impact of wireless properties disposed of in December 1996, the 1997 revenue growth rate would

have been 12.9%. The revenue growth was driven by consolidated subscriber growth of 15.7% (18.3% adjusted) in 1997. In 1996 wireless revenue increased \$563 million, or 16.7%, on a 31.7% increase in subscribers. The slower rates of growth in 1997 reflect the increased competition that characterized the wireless industry in 1997. Competition was particularly fierce in the southwestern and western areas of the U.S. where the introductory offers of new market entrants were often met with equally competitive offers from incumbent cellular competitors. The lower growth rates also reflect the fact that while new competitors have had a significant impact in many of our cellular (850 MHz) markets, we are just beginning to penetrate new markets with AT&T Digital PCS service on the 1.9 GHz spectrum. Finally, similar to our consumer strategy, toward the end of 1997 we began focusing our efforts on targeting high-value wireless customers and reducing sales to lower-end subscribers. While this strategic move impacted both revenue and subscriber growth rates in 1997, and will continue to impact these growth rates in 1998, it is designed to improve the profitability of the wireless business.

AT&T Wireless Services Licenses Footprint



This strategic shift, if successful, will help support our average revenue per user (ARPU) over time. In 1997 the impact of industry-wide competitive pricing pressure, along with increased "convenience" usage of wireless phones, overcame any benefit from our high-value strategy. ARPU in our existing cellular markets fell to \$54 per month from approximately \$60 in 1996 and \$69 in 1995.

Wireless customers, or subscribers, in markets where AT&T owns a majority interest (consolidated markets), stood at 6.0 million at December 31, 1997. This included over sixty thousand subscribers in our new 1.9 GHz markets. Cellular subscribers at December 31, 1996, and 1995 were 5.2 million and 3.9 million, respectively. Cellular subscribers in markets in which we have or share a controlling interest were 8.2 million at December 31, 1997, up 14.7% from 7.1 million at December 31, 1996. Cellular customers on this basis were 5.5 million at December 31, 1995.

Revenue for local and other initiatives increased \$657 million, or 42.0%, in 1997 and \$176 million, or 12.6%, in

1996. The 1997 increase resulted primarily from increases in outsourcing revenue at AT&T Solutions, as well as revenue from international markets, AT&T WorldNet and local service. Outsourcing revenue and revenue from AT&T WorldNet drove the increase in 1996, partially offset by a decline in revenue from international markets.

Other and eliminations revenue primarily reflects the elimination of revenues for services sold between categories (e.g., sales of business long-distance services to other AT&T units).

Operating Expenses

For the year, operating expenses totaled \$44,351 million, an increase of 6.1% from \$41,783 million in 1996. In 1996 expenses increased 3.8% from \$40,238 million.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Access and other interconnection	\$ 16,306	\$ 16,332	\$ 17,618

Access and other interconnection expenses are the charges that we pay to connect calls on the facilities of local exchange carriers and other domestic service providers, and fees that we pay foreign telephone companies (settlements) to connect calls made to and from foreign countries on our behalf. These charges are designed to reimburse these carriers for the common and dedicated facilities and switching equipment used to connect our network with theirs. These costs remained essentially flat in 1997 as lower per-minute access costs were offset by solid volume growth and a beneficial second quarter 1996 accounting adjustment of previously estimated accruals to reflect actual billing. The lower per-minute access costs are primarily the result of declines in international settlement rates and access charge reform mandated by the Federal Communications Commission (FCC) effective for the second half of 1997. Interstate and intrastate tariff reductions, changes in traffic mix and network planning also contributed to the lower per-minute access costs.

In 1996 access costs declined \$1,286 million, or 7.3%, again due to lower per-minute access costs. This resulted from changes in the price-setting methodology approved by the FCC effective in the second half of 1995, and also from improvements in our infrastructure and reduced international settlements payments. The beneficial accounting adjustment mentioned above also contributed to the reduction.

Access and other interconnection expenses were 31.8% of revenues in 1997, 32.3% in 1996 and 36.4% in 1995. We expect this percentage to continue to decline over time as we realize synergies from our pending merger with TCG.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Network and other communications services	\$ 9,316	\$ 7,918	\$ 6,913

* Excludes restructuring and other charges of \$844

Network and other communications services expenses include the costs of operating and maintaining our network, operator services, nonincome taxes, the provision for uncollectible receivables and compensation to payphone operators. More than half of the \$1,398 million, or 17.6%, increase in 1997 was due to higher costs for initiatives, particularly AT&T Solutions, AT&T WorldNet and local service. The remaining increase was primarily driven by FCC mandated compensation to payphone operators and higher expenses for operating and maintaining our network. Expenses for operating and maintaining our network increased due to higher costs for purchases from Lucent at retail and otherwise remained essentially unchanged despite increased calling volumes and the increased complexity of our service offerings.

Growth in payphone compensation expense decelerated in the fourth quarter when the FCC agreed to a reduction in the per-call rate from \$0.350 to \$0.284. As a result of this action, AT&T was able to reverse some of the expense previously accrued in 1997. We are currently asking for further relief from this expense as we believe that the \$0.284 per call rate remains above the actual cost to payphone operators of providing services.

Network and other communications services expenses increased \$1,005 million, or 14.5%, in 1996. The increase was due to increased costs from our expansion into new initiatives, enhancements made in customer care facilities and a higher provision for uncollectibles.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Depreciation and amortization	\$ 3,827	\$ 2,740	\$ 2,586

* Excludes restructuring and other charges of \$934

Depreciation and amortization expenses increased \$1,087 million, or 39.6%, in 1997. The increase was driven by higher levels of capital expenditures which totaled \$3.0 billion in the fourth quarter of 1996 and \$7.2 billion in 1997. In addition to higher volumes of purchases, the impact of purchasing assets at retail from Lucent also contributed to the higher level of capital spending. The 1997 expenditures were primarily for our long-distance and wireless networks, including the deployment of SONET. We also invested substantial capital in building our capability for local and WorldNet services. These capital investments were required to provide for growth in calling volumes, to increase capability, to introduce new technology, to enhance reliability, to expand our wireless footprint and to establish a local presence. We expect depreciation and amortization expenses to increase further in 1998 as we continue to expand and enhance our network.

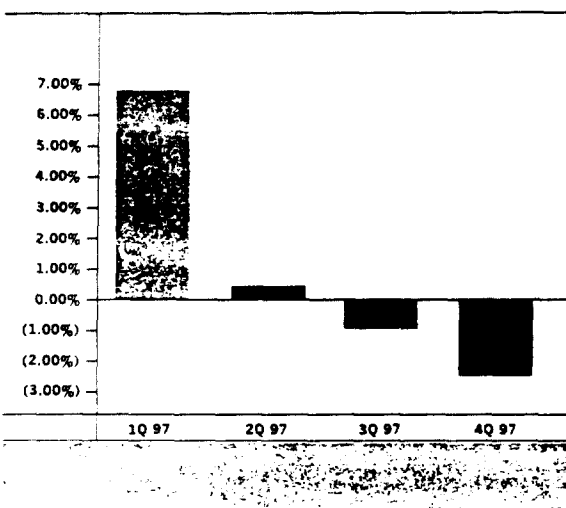
Depreciation and amortization increased \$154 million, or 6.0%, in 1996. The increase was primarily the result of investment in the network partially offset by the impact of asset write-downs at the end of 1995.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Selling, general and administrative	\$ 14,902	\$ 14,793	\$ 13,121

* Excludes restructuring and other charges of \$1,245

Selling, general and administrative expenses increased \$109 million, or 0.7%, in 1997. SG&A expenses were 29.0% of revenues in 1997, 29.3% in 1996 and 27.1% in 1995. While investment in initiatives and spending on transitory projects, such as preparation of our systems for the year 2000 (\$113 million), put upward pressure on SG&A expenses in 1997, core SG&A spending declined for the year as a result of our efforts to achieve a competitive cost structure. The decline in core SG&A expenses came primarily from lower advertising expenses across the company, lower acquisition costs in consumer markets – primarily a reduction in the use of checks to acquire customers, and lower marketing and sales expenses in business markets. As the chart shows, our year-over-year growth in SG&A declined each quarter in 1997.

SG&A Expenses Year-over-Year Growth



Partially offsetting our savings were higher retention and acquisition costs in wireless markets. AT&T Wireless Services invested heavily in migrating customers to digital service in 1997, which lowers costs over time. These migration costs plus the costs of servicing a growing customer base caused the increase in overall customer costs in wireless. However, cost per customer acquisition in cellular markets was 6.1% lower in 1997 than in 1996 as a result of our focus on less expensive distribution channels.

Selling, general and administrative expenses increased \$1,672 million, or 12.7%, in 1996 due to expenditures for new initiatives, higher marketing and sales expenses, and enhancements to customer care facilities. Our initiatives represented about 30% of our increase in 1996.

We have established processes for evaluating and managing the risks and costs associated with preparing our systems, global networks and applications for the year 2000. We expect to incur internal staff costs as well as consulting and other expenses related to the conversion and testing of our systems, global networks and applications. We expect the cost of this project to be approximately \$350 million in 1998. Slightly more than half of these costs represent internal information technology resources that have been redeployed from other projects and are expected to return to these projects upon completion. We plan on having substantially all modifications completed by the end of 1998, leaving a full year for testing. We are still assessing the impact to us, if any, in 1999.

Also included in SG&A expenses were \$829 million, \$822 million and \$732 million of research and development expenses in 1997, 1996 and 1995, respectively. Research and development expenditures are mainly for work on advanced communications services and projects aimed at IP services. These expenses included \$6 million of restructuring and other charges in 1995.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Other income - net	\$ 416	\$ 390	\$ 284

Other income - net in 1997 included the gain on the sale of AT&T Skynet (\$97 million), gains and losses on sales of cellular investments, increases in the value of corporate-owned life insurance policies on officers, net equity earnings from investments and other miscellaneous transactions, none of which are individually significant.

In 1996 other income - net included sales and exchanges of cellular properties, increases in the value of corporate-owned life insurance policies on officers, net equity earnings from investments and other miscellaneous transactions. In addition, other income for 1996 included a loss on our investment in Novell, Inc.

EBIT

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Total AT&T*	\$ 7,384	\$ 9,153	\$ 8,491
Wireless services	\$ 271	\$ 600	\$ 406

* Excludes restructuring and other charges of \$3,023 in 1995

EBIT decreased \$1,769 million, or 19.3%, in 1997 primarily as a result of increases in network and other communications services expenses and depreciation and amortization expenses partially offset by increased revenues. As discussed above, the higher depreciation expense relates primarily to our core business, while investment in initiatives drove the increased network and other communications services expenses. The \$662 million, or 7.8%, increase in

1996 was primarily due to an increase in revenues and a decrease in access and other interconnection expenses partially offset by increases in both SG&A expenses and network and other communications services expenses.

Wireless services EBIT in 1997 contained a \$160 million charge to exit the two-way messaging business as well as increased dilution from wireless initiatives. EBIT for wireless services for 1996 contained a gain on the exchange of several wireless properties.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Interest expense	\$ 191	\$ 343	\$ 490

Interest expense decreased \$152 million, or 44.1%, in 1997 due to lower levels of average debt and a higher proportion of capitalized interest. Average debt was higher in 1996 due to the additional debt associated with Lucent. We capitalized a greater proportion of our interest expense in 1997 primarily due to higher qualifying assets for our local initiative.

Interest expense decreased \$147 million, or 30.1%, in 1996 compared with 1995 due to lower levels of average debt, which were primarily attributable to the assignment of debt to Lucent and the application of the proceeds from the sale of AT&T Capital.

For the Years Ended December 31	1997	1996	1995*
Dollars in Millions			
Provision for income taxes	\$ 2,721	\$ 3,237	\$ 2,934

* Excludes restructuring and other charges of \$991

The effective income tax rate is the provision for income taxes as a percentage of income from continuing operations before income taxes. The effective income tax rate was 37.8% in 1997 and 36.7% in both 1996 and 1995. The effective tax rate in 1997 was impacted by investment dispositions announced in 1997. The 1996 effective income tax rate was reduced by tax benefits associated with various legal entity restructurings while the 1995 rate was favorably impacted by lower state tax rates and higher research credits. The 1995 effective tax rate including restructuring and other charges was 39.0%.

Growth Initiatives

We have undertaken a number of initiatives in order to ensure that we have a complete portfolio of services that customers demand. While these initiatives currently have a dilutive impact on our earnings, they are expected to contribute significantly to our future earnings and revenue growth. The following are summaries of these initiatives and their impacts on our earnings for the last three years. Data on initiatives include costs and expenses on an incremental basis and require certain estimates and



allocations that management believes provide a reasonable basis on which to present such information. Accordingly, all data presented represent approximate amounts.

Local Services Initiative

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	\$ (987)	\$ (467)	\$ (155)
EBITDA	\$ (916)	\$ (457)	\$ (155)
Capital Expenditures	\$ 853	\$ 775	\$ 353

We continue to work to provide local service to business and residential customers across the country. In 1997 we introduced AT&T Digital Link local service for medium- and large-sized businesses. At the end of 1997 AT&T Digital Link service was available in 49 states for outbound local calling. Inbound capability, however, was and remains delayed by the lack of local number portability and other factors. Our pending merger with TCG is an aggressive move to expand our reach and propel our entry into the market for business local service and dedicated access.

In residential markets at the end of 1997 we offered resold local service in seven states. However, in spite of strong demand, in the fourth quarter we stopped actively marketing resold local service to residential and small business customers in most of these areas because of the limitations on local exchange carriers' ability to handle anticipated demand and because the discounts we receive from the local exchange carriers on the sale of these services are insufficient to make resale a viable long-term method of offering service. The economic conditions of the total services resale approach simply do not allow us to provide local service profitably. Nevertheless, despite the difficulty of the regulatory environment, local service is a key growth opportunity and we will continue to work to develop alternative methods of local entry.

Wireless Initiatives

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	\$ (432)	\$ (95)	\$ -
EBITDA	\$ (310)	\$ (76)	\$ -
Capital Expenditures	\$ 823	\$ 659	\$ -

Our wireless initiatives include wireless service in new markets, wireless data services and international expansion. Our primary wireless initiative is to provide services in new markets on the 1.9 GHz spectrum purchased in the FCC's "A and B Block" auction in 1996. During 1997 we activated nine systems: Phoenix/Tucson in the second quarter; Atlanta and Chicago in the third quarter, and Philadelphia, Washington D.C./Baltimore, Cleveland, Charlotte, St. Louis and Detroit in the fourth quarter. In addition, we activated

our system in Boston in January 1998. These markets extend the availability of AT&T Digital PCS, which has already been introduced in AT&T's 850 MHz markets, and extends into Canada through our partnership with Cantel. Also, in order to extend the reach of AT&T's digital wireless services, we have announced a number of partnerships with other wireless carriers. Through February 1998 we had announced agreements with Triton PCS, Telecorp and Cincinnati Bell, as well as an interoperability agreement with Dobson Communications. These agreements will allow us to achieve a build-out of certain license areas with minimal capital investment.

The increased EBIT dilution from wireless initiatives in 1997 primarily relates to a \$160 million charge to exit the two-way messaging business, as well as expenses related to the activation of the new 1.9 GHz markets.

Other Initiatives

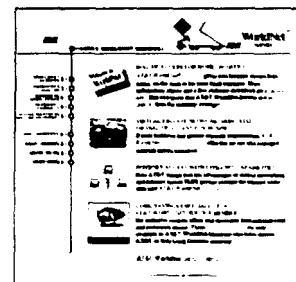
For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
EBIT	\$ (1,097)	\$ (975)	\$ (392)
EBITDA	\$ (917)	\$ (888)	\$ (283)
Capital Expenditures	\$ 308	\$ 245	\$ 159



Other initiatives include AT&T Solutions, AT&T WorldNet and other online services, and international markets (excluding bilateral traffic). AT&T Solutions continued to grow and made progress in 1997

toward achieving profitability. We expect AT&T Solutions to turn profitable in 1998. In 1997 AT&T Solutions won contracts with such companies as 1-800-FLOWERS, Bear Stearns, Hallmark, Royal Bank of Canada, Chung Hwa Telecommunications, PT Telkom, Norwest Bank, Best Buy and United Airlines. EBIT dilution from AT&T Solutions decreased 53% in 1997 and increased 4% in 1996.

In 1997 we continued to develop our presence in the Internet access and electronic commerce businesses through our online services such as AT&T WorldNet and electronic commerce businesses. AT&T WorldNet signed up its one-millionth customer in the fourth quarter of 1997 and finished the year with 1.01 million Internet access customers. This represents an increase of 443,000 subscribers for the year. As AT&T WorldNet's initial promotional activity began to expire in 1997, subscriber growth slowed as many customers who were receiving the free promo-



tion deactivated service. We continue to explore ways of growing the Internet access business and realizing synergies between it and other AT&T businesses. For example, in January 1998 we announced a long-distance offer targeting Internet access customers. Beginning in March 1998 AT&T WorldNet customers can sign up for long-distance services via AT&T's Web site and receive a rate of nine cents per minute.

Globally, we focused our strategy on serving multinational corporations and global travelers and expanding our North American franchise in Canada and Mexico. Alestra, our Mexican joint venture with Grupo Alfa and VISA-Bancomer, had over one million lines presubscribed in 1997, leading all of the other carriers competing against the former monopoly carrier, TelMex. However, equity losses from Alestra exceeded our expectations in 1997. In 1997 we also announced a proposed alliance with Telecom Italia that we believe will enhance our ability to serve multinational customers in Europe and Latin America. Telecom Italia will join the AT&T-Unisource joint venture in Europe. In addition, we plan to form a joint venture with Telecom Italia to serve customers in Latin America.

Cash Flows

EBITDA

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Total AT&T*	\$ 11,277	\$ 11,955	\$ 11,127
Wireless services	\$ 1,237	\$ 1,332	\$ 971

* Excludes restructuring and other charges of \$2,089 in 1995

EBITDA is a measure of our ability to generate cash flow and should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with generally accepted accounting principles. The decrease of \$678 million, or 5.7%, in 1997 was due primarily to an increase in network and other communications services expenses partially offset by increased revenues. The 1996 increase of \$828 million, or 7.4%, was primarily due to an increase in revenues and a decrease in access and other interconnection expenses partially offset by increases in both SG&A expenses and network and other communications services expenses.

Wireless services EBITDA in 1997 contained an \$80 million charge to exit the two-way messaging business and also reflected increased dilution from initiatives. EBITDA for wireless services for 1996 contained a gain on the exchange of several wireless properties.

All cash flow discussions pertain to cash flows from continuing operations.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows from operating activities	\$ 8,437	\$ 7,875	\$ 8,198

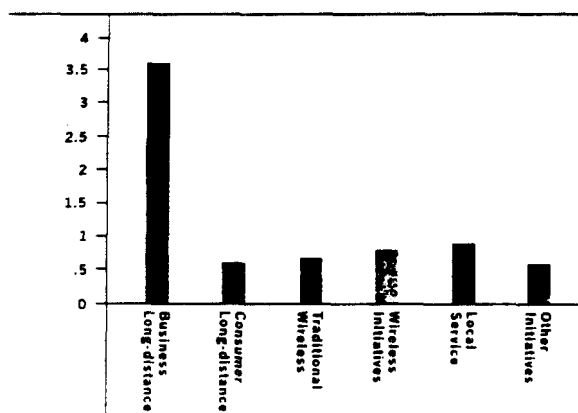
Cash flow from operations increased \$562 million, or 7.1%, in 1997 and decreased \$323 million, or 3.9%, in 1996. A number of factors drove the increase in 1997 including the collection of employee-benefit-related receivables from Lucent in 1997 and improved customer cash collections across the company. In addition, 1996 cash flow from operations included a \$500 million prepayment to Lucent.

The decrease in 1996 related mainly to required cash payments for restructuring and other charges amounting to \$471 million.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows used in investing activities	\$ (6,407)	\$ (975)	\$ (8,163)

1997 Capital Expenditures by Category

Dollars in Billions



Included in 1997 investing activities were net capital expenditures, the net funding requirements for UCS, acquisitions of licenses and proceeds received from divestments. While we have agreed to sell UCS, we continue to fund its operations. Our assets, therefore, include short- and long-term notes receivable from UCS, and our debt includes external debt used to fund UCS. In accordance with the purchase agreement, at the time of sale in 1998 we will receive cash from Citibank for



the notes receivable from UCS. Cash used in investing activities increased significantly in 1997 compared with 1996 primarily as a result of the lower level of credit card receivables

securitized in 1997 by UCS (\$1 billion) versus receivables securitized in 1996 (\$3 billion). Due to the significant cash generated from the 1996 securitizations, UCS lowered its debt requirements and subsequently repaid \$3,360 million of its notes payable to us. In 1997, with reduced securitizations and a growing portfolio, UCS increased its notes payable to us.

Capital expenditures, acquisitions of investments, licenses and businesses amounted to \$7,648 million in 1997, \$7,183 million in 1996 and \$9,888 million in 1995. This resulted in net cash outlays for these categories in 1997, 1996 and 1995 of \$7,578 million, \$6,741 million and \$9,981 million, respectively.

We expect our 1998 capital expenditures to be about \$7 billion; in addition, TCG anticipates 1998 capital expenditures of \$1 billion. These expenditures include the completion of our three-year program of SONET deployment as well as additional capital to meet our customers' needs for new technology and increased capacity in long-distance, wireless, WorldNet and local services.

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Cash flows from financing activities	\$ (1,801)	\$ (5,380)	\$ 1,457

In 1997 we raised all necessary external financing through issuances of commercial paper. We expect to be able to arrange any necessary future financing using issuances of commercial paper, long-term debt and equity, with the timing of issue, principal amount and form depending on our needs and the prevailing market and economic conditions. We do not anticipate requiring additional external financing in 1998 to fund capital expenditures and dividend payments.

During 1997 we retired long-term debt of \$662 million and increased short-term borrowings by \$1,114 million. The increase in short-term debt was primarily due to increased funding requirements of UCS.

In 1996 we retired long-term debt of \$1,236 million and decreased short-term debt by \$5,301 million. The changes in debt reflected the use of alternative sources of funding, such as securitization, as well as Lucent's use of its own external financing in 1996. Additionally, the cash collection of the \$2.0 billion in accounts receivable retained by AT&T continuing operations as part of the restructuring plan and the proceeds of \$1.8 billion from the sale of AT&T Capital were used to pay down our debt. During 1995 we retired \$2,137 million of long-term debt, but borrowed an additional \$2,392 million of long-term debt and \$1,976 million of short-term debt.

In 1997 we obtained substantially all of the stock for our shareowner and employee benefit stock-ownership plans in the open market rather than issuing new shares. This required us to use the cash received from shareowners and employees to purchase the shares, resulting in a cash payment of \$163 million. In 1996 and 1995 the stock used in our shareowner and employee benefit stock-ownership plans was issued from unissued or treasury shares. Accordingly, during those years we kept the more than \$1.2 billion of cash received from shareowners and employees for the issuances of shares. We paid dividends of \$2,142 million in 1997, \$2,122 million in 1996 and \$2,088 million in 1995. As we issue shares in 1998, as in connection with the TCG merger and a proposed cross-shareholding arrangement with Telecom Italia, dividend payments will increase, assuming that the company's dividend policy remains the same. To support potential future needs, our Board of Directors has proposed an increase in the number of authorized shares from 2 billion to 6 billion.

Risk Management

We are exposed to market risk from changes in interest and foreign exchange rates. On a limited basis we use certain derivative financial instruments including interest rate swaps, options, forwards and other derivative contracts to manage these risks. We do not use financial instruments for trading or speculative purposes. All financial instruments are used in accordance with board-approved policies.

We use interest rate swaps to manage the impact of interest rate changes on earnings and cash flows and also to lower our overall borrowing costs. We monitor our interest rate risk on the basis of changes in fair value. Assuming a 10% downward shift in interest rates at December 31, 1997, the potential loss in the net change in the fair value of interest rate swaps and the underlying hedged debt would have been \$3 million. Assuming a 10% downward shift in interest rates at December 31, 1997, the potential loss in the net change in fair value of unhedged debt would have been \$311 million.

We use forward and option contracts to reduce our exposure to the risk of adverse changes in currency exchange rates. We are subject to foreign exchange risk related to reimbursements to foreign telephone companies for their portion of the revenues billed by AT&T for calls placed in the U.S. to a foreign country. In addition, we are also subject to foreign exchange risk related to other foreign-currency-denominated transactions. As of December 31, 1997, there was a net unrealized loss on forward contracts of \$30 million, calculated based on the difference between the contract rate and the rate available to terminate the contracts. We monitor our foreign exchange rate risk on the basis of changes in fair value. Additional potential losses in the net fair value of these contracts, assuming a 10% appreciation in the U.S. dollar at December 31, 1997, would have been \$6 million. Because these contracts are entered into for

hedging purposes, we believe that these losses would be largely offset by gains on the underlying firmly committed or anticipated transactions.

The estimated potential losses, as discussed above, assume the occurrence of certain adverse market conditions. They do not consider the potential effect of favorable changes in market factors and do not represent projected losses in fair value that we expect to incur. Future impacts would be based on actual developments in global financial markets. Our management does not foresee any significant changes in the strategies used to manage interest rate risk or foreign currency rate risk in the near future.

Financial Condition

At December 31	1997	1996
Dollars in Millions		
Total assets	\$ 58,635	\$ 55,382
Total assets from continuing operations	\$ 57,534	\$ 53,872

Total assets from continuing operations increased \$3,662 million, or 6.8%, in 1997 primarily due to increases in property, plant and equipment and long-term receivables, partially offset by decreases in other receivables and accounts receivable. The increase in property, plant and equipment resulted from investment in the network, while both the increase in long-term receivables and the decrease in other receivables are related to notes receivable from UCS. As a result of UCS becoming a discontinued operation, our balance sheet for continuing operations now reflects the receivable from UCS that is expected to be paid by Citibank as well as the external debt associated with procuring debt on behalf of UCS. In total, the receivable from UCS increased \$441 million. The decrease in accounts receivable was primarily a result of our lower fourth-quarter consumer revenue.

At December 31	1997	1996
Dollars in Millions		
Total liabilities	\$ 35,988	\$ 35,087

Total liabilities increased \$901 million, or 2.6%, in 1997 primarily as a result of increases in both deferred income taxes and total outstanding debt. The increase in deferred income taxes was mainly a result of the difference in book and tax basis for our property, plant and equipment, while debt increased due to increased funding requirements for UCS.

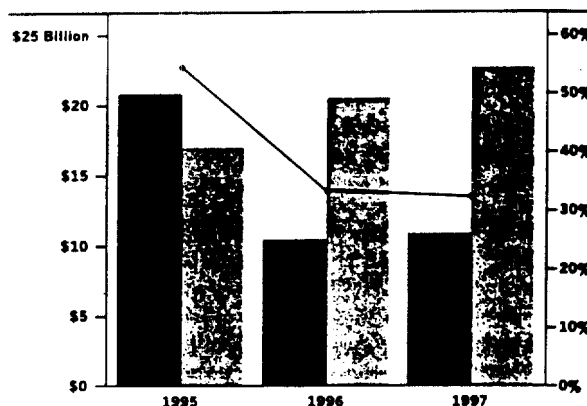
At December 31	1997	1996
Dollars in Millions		
Total shareowners' equity	\$ 22,647	\$ 20,295

Shareowners' equity increased \$2,352 million, or 11.6%, in 1997. The increase was driven by net income, partially offset by 1997 dividends.

At December 31	1997	1996
Debt ratio	32.3%	33.7%

Our debt ratio declined slightly in 1997 due to the increase in shareowners' equity as discussed above. In 1998 we expect our debt ratio to decrease further as we utilize expected cash proceeds from our pending asset dispositions to retire a certain amount of outstanding debt.

AT&T Capitalization Chart



Year	Total Assets (\$B)	Total Liabilities (\$B)	Debt Ratio (%)
1995	\$20,700	\$16,800	40%
1996	\$20,800	\$20,800	33.7%
1997	\$22,600	\$36,000	32.3%

Legislative and Regulatory Developments

The Telecommunications Act of 1996 was designed to foster local exchange competition by establishing a regulatory framework to govern new competitive entry in local and long-distance telecommunications services. The Telecommunications Act also permits Regional Bell Operating Companies (RBOCs) to provide interexchange services originating in any state in its region after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act.

A number of court decisions have severely restricted implementation of the Telecommunications Act and delayed local service competition. In July 1997 the United States Court of Appeals for the Eighth Circuit vacated the pricing rules that the FCC had adopted to implement the sections of the local competition provisions of the Telecommunications Act applicable to interconnection with local exchange carrier (LEC) networks and the purchase of unbundled network elements and wholesale services from LECs. In October 1997 the Eighth Circuit vacated an FCC Rule that had prohibited incumbent LECs from separating network elements that are combined in the LECs' network, except at the request of the competitor purchasing the elements. These decisions

increased the difficulty and costs of providing competitive local service through resale or the use of unbundled network elements purchased from the incumbent LECs.

On January 26, 1998, the United States Supreme Court agreed to review the aforementioned decisions of the Eighth Circuit Court of Appeals. Under the normal procedures of the Court, arguments are expected to be heard in October 1998 and a decision is expected sometime in the first half of 1999.

On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a memorandum opinion and order holding that the Telecommunications Act's restrictions on the provision of in-region, interLATA service by the RBOCs are unconstitutional. AT&T and other carriers (collectively, "Intervenors") have filed an appeal with the United States Court of Appeals for the Fifth Circuit, and the FCC is expected to do the same. On February 11, 1998, the District Court suspended the effectiveness of its December 31 memorandum opinion and order pending appeal. If the memorandum opinion and order is permitted to take effect, the Telecommunications Act's restrictions on the provisions of in-region, interLATA services will no longer apply to the plaintiffs in the case, SBC Communications, Inc., US West, Inc. and Bell Atlantic Corporation.

Competition

AT&T currently faces significant competition and expects that the level of competition will continue to increase. The Telecommunications Act permits RBOCs to provide interLATA interexchange services after demonstrating to the FCC that such provision is in the public interest and satisfying the conditions for developing local competition established by the Telecommunications Act. Three RBOCs have petitioned the FCC for permission to provide interLATA interexchange services in one or more states within their home market; to date the FCC has not granted any such petition. To the extent that the RBOCs obtain in-region interLATA authority before the Telecommunications Act's checklist of conditions have been fully or satisfactorily implemented and adequate facilities-based local exchange competition exists, there is a substantial risk that AT&T and other interexchange service providers would be at a disadvantage to the RBOCs in providing both local service and combined service packages. Because it is widely anticipated that substantial numbers of long-distance customers will seek to purchase local, interexchange and other services from a single carrier as part of a combined or full service package, any competitive disadvantage, inability to profitably provide local service at competitive rates, or delays or limitations in providing local service or combined service packages is likely to adversely affect AT&T's future revenues and earnings. In addition, the simultaneous entrance of numerous new competitors for interexchange and combined service packages is likely to adversely affect AT&T's long-distance revenues and could adversely affect earnings.

Recent Pronouncements

Effective with the first quarter 1998 reporting we will adopt Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Since this standard applies only to the presentation of comprehensive income, it will not have any impact on AT&T's results of operations, financial position or cash flows.

Beginning with the 1998 annual report we will also adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. The standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information are required to be disclosed for each operating segment. In addition, this standard requires the annual disclosure of: information concerning revenues derived from the enterprise's products or services; countries in which it earns revenues or holds assets, and major customers.

Forward Looking Statements

Except for the historical statements and discussions contained herein, statements contained in this report constitute "forward looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward looking statements rely on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control, that could cause actual results to differ materially from such statements.

Readers are cautioned not to put undue reliance on such forward looking statements. These factors and uncertainties include the adoption of balanced and effective rules and regulations by the state public regulatory agencies, our ability to achieve a significant market penetration in new markets and the related costs thereof, and competitive pressures. Shareowners may view our reports filed with the Securities and Exchange Commission for a more detailed description of the uncertainties and other factors that could cause actual results to differ materially from such forward looking statements. We disclaim any intention or obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise.

Seven-Year Summary of Selected Financial Data (Unaudited)

	1997	1996	1995	1994	1993*	1992	1991*
Dollars in Millions (except per share amounts)							
Results of Operations							
Revenues	\$ 51,319	\$ 50,546	\$ 48,445	\$ 46,000	\$ 43,780	\$ 42,960	\$ 41,842
Operating income	6,968	8,763	5,184	7,409	6,577	6,246	2,681
Income from continuing operations before cumulative effects of accounting changes	4,472	5,573	3,035	4,260	3,786	3,233	1,199
Income before cumulative effects of accounting changes	4,638	5,908	139	4,710	3,702	3,442	171
Net income(loss)	4,638	5,908	139	4,710	(5,906)	3,442	171
Earnings per common share - basic:							
Income from continuing operations before cumulative effects of accounting changes	\$ 2.75	\$ 3.46	\$ 1.92	\$ 2.74	\$ 2.46	\$ 2.14	\$ 0.82
Income before cumulative effects of accounting changes	2.85	3.67	0.09	3.03	2.41	2.28	0.12
Net income(loss)	2.85	3.67	0.09	3.03	(3.84)	2.28	0.12
Earnings per common share - diluted:							
Income from continuing operations before cumulative effects of accounting changes	2.74	3.45	1.91	2.72	2.45	2.13	0.81
Income before cumulative effects of accounting changes	2.84	3.66	0.09	3.01	2.39	2.27	0.12
38. Net income(loss)	2.84	3.66	0.09	3.01	(3.82)	2.27	0.12
Dividends declared per common share	1.32	1.32	1.32	1.32	1.32	1.32	1.32
Assets and Capital							
Property, plant and equipment - net	\$ 22,710	\$ 19,736	\$ 16,021	\$ 14,377	\$ 13,653	\$ 13,590	\$ 13,058
Total assets - continuing operations	57,534	53,872	53,726	47,439	41,353	40,124	37,172
Total assets	58,635	55,382	62,228	57,330	50,023	50,521	48,695
Long-term debt	6,826	7,883	8,545	8,938	10,287	12,210	12,167
Total debt	10,824	10,332	20,709	18,492	18,185	17,120	16,756
Shareowners' equity	22,647	20,295	17,274	17,921	13,374	20,313	17,973
Gross capital expenditures	7,213	6,776	4,504	3,361	2,537	2,293	2,424
Employees - continuing operations	127,800	126,600	124,600	115,300	118,100	118,200	115,300
Other Information							
Operating income as a percentage of revenues	13.6 %	17.3 %	10.7 %	16.1 %	15.0 %	14.5 %	6.4 %
Income from continuing operations as a percentage of revenues	8.7 %	11.0 %	6.3 %	9.3 %	8.6 %	7.5 %	2.9 %
Return on average common equity	21.5 %	28.0 %	0.7 %	29.5 %	(47.1) %	17.6 %	0.9 %
Data at year-end:							
Stock price per share**	\$ 61.31	\$ 41.31	\$ 44.40	\$ 34.46	\$ 36.00	\$ 34.97	\$ 26.83
Book value per common share	\$ 13.94	\$ 12.50	\$ 10.82	\$ 11.42	\$ 8.65	\$ 13.31	\$ 12.05
Debt ratio	32.3 %	33.7 %	54.5 %	50.8 %	57.6 %	45.7 %	48.2 %

* 1995 continuing operations data reflect \$3.0 billion of pretax business restructuring and other charges. 1993 net income reflects a \$9.6 billion net charge for three accounting changes. 1991 continuing operations data reflect \$3.5 billion of pretax business restructuring and other charges.

** Stock prices for 1991 - 1996 have been restated to reflect the spin-offs of Lucent and NCR.

Report of Management

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements, which reflect the consolidated accounts of AT&T Corp. and subsidiaries (AT&T) and other financial information shown, were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

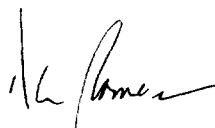
To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in AT&T's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that

(1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles and (2) access to assets occurs only in accordance with management's authorizations

The Audit Committee of the Board of Directors, which is composed of directors who are not employees, meets periodically with management, the internal auditors and the independent accountants to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent accountants meet privately with the Audit Committee. These accountants also have access to the Audit Committee and its individual members at any time.

The consolidated financial statements in this annual report have been audited by Coopers & Lybrand L.L.P., Independent Accountants. Their audits were conducted in accordance with generally accepted auditing standards and include an assessment of the internal control structure and selective tests of transactions. Their report follows.



Daniel E. Somers
Senior Executive Vice President,
Chief Financial Officer



C. Michael Armstrong
Chairman of the Board,
Chief Executive Officer

Report of Independent Accountants

To the Shareowners of AT&T Corp.:

We have audited the consolidated balance sheets of AT&T Corp. and subsidiaries (AT&T) at December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareowners' equity and cash flows for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.



Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, New York
January 26, 1998

Consolidated Statements of Income

For the Years Ended December 31

1997

1996

1995

Dollars in Millions (except per share amounts)

Revenues	\$ 51,319	\$ 50,546	\$ 48,445
Operating Expenses			
Access and other interconnection	16,306	16,332	17,618
Network and other communications services	9,316	7,918	7,757
Depreciation and amortization	3,827	2,740	3,520
Selling, general and administrative	14,902	14,793	14,366
Total operating expenses	44,351	41,783	43,261
Operating income	6,968	8,763	5,184
Other income – net	416	390	284
Interest expense	191	343	490
Income from continuing operations before income taxes	7,193	8,810	4,978
Provision for income taxes	2,721	3,237	1,943
Income from continuing operations	4,472	5,573	3,035
Discontinued Operations			
Income(loss) from discontinued operations (net of taxes of \$50 in 1997, \$(353) in 1996 and \$(1,147) in 1995)	100	173	(2,896)
Gain on sale of discontinued operations (net of taxes of \$43 in 1997 and \$138 in 1996)	66	162	-
Net income	\$ 4,638	\$ 5,908	\$ 139
Weighted-average common shares and potential common shares (millions)*	1,630	1,616	1,592
Per Common Share – Basic:			
Income from continuing operations	\$ 2.75	\$ 3.46	\$ 1.92
Income(loss) from discontinued operations	0.06	0.11	(1.83)
Gain on sale of discontinued operations	0.04	0.10	-
Net income	\$ 2.85	\$ 3.67	\$ 0.09
Per Common Share – Diluted:			
Income from continuing operations	\$ 2.74	\$ 3.45	\$ 1.91
Income(loss) from discontinued operations	0.06	0.11	(1.82)
Gain on sale of discontinued operations	0.04	0.10	-
Net income	\$ 2.84	\$ 3.66	\$ 0.09

* Amounts represent the weighted-average shares assuming dilution from the potential exercise of outstanding stock options. Amounts are reduced by 5 million, 6 million and 8 million shares for 1997, 1996 and 1995, respectively, assuming no dilution.

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

At December 31	1997	1996
Dollars in Millions		
Assets		
Cash and cash equivalents	\$ 145	\$ -
Receivables, less allowances of \$977 and \$942		
Accounts receivable	8,573	8,969
Other receivables	5,684	6,140
Deferred income taxes	1,252	1,266
Other current assets	525	698
Total current assets	16,179	17,073
Property, plant and equipment - net	22,710	19,736
Licensing costs, net of accumulated amortization of \$1,076 and \$913	8,329	8,071
Investments	3,857	3,875
Long-term receivables	1,794	872
Prepaid pension costs	2,156	1,933
Other assets	2,509	2,312
Net assets of discontinued operations	1,101	1,510
Total assets	\$ 58,635	\$ 55,382
Liabilities		
Accounts payable	\$ 6,243	\$ 6,157
Payroll and benefit-related liabilities	2,348	2,614
Debt maturing within one year	3,998	2,449
Dividends payable	538	536
Other current liabilities	3,815	4,395
Total current liabilities	16,942	16,151
Long-term debt	6,826	7,883
Long-term benefit-related liabilities	3,142	3,037
Deferred income taxes	5,711	4,827
Other long-term liabilities and deferred credits	3,367	3,189
Total liabilities	35,988	35,087
Shareowners' Equity		
Common shares, par value \$1 per share	1,624	1,623
Authorized shares: 2,000,000,000		
Outstanding shares: 1,624,213,505 at December 31, 1997; 1,623,487,646 at December 31, 1996		
Additional paid-in capital	15,751	15,697
Guaranteed ESOP obligation	(70)	(96)
Foreign currency translation adjustments	(28)	(7)
Retained earnings	5,370	3,078
Total shareowners' equity	22,647	20,295
Total liabilities and shareowners' equity	\$ 58,635	\$ 55,382

The notes on pages 44 through 55 are an integral part of the consolidated financial statements

AT&T Corp. and Subsidiaries

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Common Shares			
Balance at beginning of year	\$ 1,623	\$ 1,596	\$ 1,569
Shares issued, net:			
Under employee plans	1	19	13
Under shareowner plans	-	8	13
Other	-	-	1
Balance at end of year	1,624	1,623	1,596
Additional Paid-In Capital			
Balance at beginning of year	15,697	16,614	15,825
Shares issued(acquired), net:			
Under employee plans	(24)	975	598
Under shareowner plans	9	434	687
Other	69	-	31
Dividends declared	-	-	(527)
Spin-offs of Lucent and NCR	-	(2,326)	-
Balance at end of year	15,751	15,697	16,614
Guaranteed ESOP Obligation			
Balance at beginning of year	(96)	(254)	(305)
Amortization	26	52	51
Assumption by Lucent	-	106	-
Balance at end of year	(70)	(96)	(254)
Foreign Currency Translation Adjustments			
Balance at beginning of year	(7)	5	145
Translation adjustments	(21)	(33)	(140)
Spin-offs of Lucent and NCR	-	21	-
Balance at end of year	(28)	(7)	5
Retained Earnings(Deficit)			
Balance at beginning of year	3,078	(687)	687
Net income	4,638	5,908	139
Dividends declared	(2,145)	(2,132)	(1,570)
Treasury shares issued at less than cost	(187)	-	-
Other changes	(14)	(11)	57
Balance at end of year	5,370	3,078	(687)
Total shareowners' equity	\$ 22,647	\$ 20,295	\$ 17,274

In March 1990 we issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the nonmanagement savings plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan.

We have 100 million authorized shares of preferred stock at \$1 par value. No preferred stock is currently issued or outstanding.

The notes on pages 44 through 55 are an integral part of the consolidated financial statements.

AT&T Corp. and Subsidiaries

For the Years Ended December 31	1997	1996	1995
Dollars in Millions			
Operating Activities			
Net income	\$ 4,638	\$ 5,908	\$ 139
Add: (Income)loss from discontinued operations	(100)	(173)	2,896
Gain on sale of discontinued operations	(66)	(162)	-
Income from continuing operations	4,472	5,573	3,035
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Restructuring and other charges	-	-	3,023
Depreciation and amortization	3,827	2,740	2,586
Provision for uncollectibles	1,957	1,938	1,613
Increase in accounts receivable	(1,431)	(2,165)	(2,220)
Increase in accounts payable	16	513	872
Net increase in other operating assets and liabilities	(787)	(1,079)	(87)
Other adjustments for noncash items - net	383	355	(624)
Net cash provided by operating activities of continuing operations	8,437	7,875	8,198
Investing Activities			
Capital expenditures	(7,143)	(6,334)	(4,597)
Proceeds from sale or disposal of property, plant and equipment	169	145	204
(Increase)decrease in finance assets	(465)	3,499	1,845
Acquisitions of licenses	(435)	(267)	(1,978)
Net decrease(increase) in investments	109	(140)	9
Dispositions(acquisitions), net of cash acquired	1,513	2,145	(3,406)
Other investing activities - net	(155)	(23)	(240)
Net cash used in investing activities of continuing operations	(6,407)	(975)	(8,163)
Financing Activities			
Proceeds from long-term debt issuances	-	-	2,392
Retirements of long-term debt	(662)	(1,236)	(2,137)
(Acquisition)issuance of common shares	(163)	1,293	1,214
Dividends paid	(2,142)	(2,122)	(2,088)
Increase(decrease) in short-term borrowings - net	1,114	(5,301)	1,976
Other financing activities - net	52	1,986	100
Net cash (used in)provided by financing activities of continuing operations	(1,801)	(5,380)	1,457
Net cash used in discontinued operations	(84)	(1,595)	(1,544)
Net increase(decrease) in cash and cash equivalents	145	(75)	(52)
Cash and cash equivalents at beginning of year	-	75	127
Cash and cash equivalents at end of year	\$ 145	\$ -	\$ 75

The notes on pages 44 through 55 are an integral part of the consolidated financial statements

Notes to Consolidated Financial Statements

(Dollars in Millions unless otherwise noted, except per share amounts)

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include all majority-owned subsidiaries. Investments in which we exercise significant influence but which we do not control (generally a 20% – 50% ownership interest) are accounted for under the equity method of accounting. This represents the majority of our investments. Generally, investments in which we have less than a 20% ownership interest are accounted for under the cost method of accounting.

Currency Translation

For operations outside of the U.S. that prepare financial statements in currencies other than the U.S. dollar, we translate income statement amounts at average exchange rates for the year and we translate assets and liabilities at year-end exchange rates. We present these translation adjustments as a separate component of shareowners' equity.

Revenue Recognition

We recognize wireline and wireless services revenue based upon minutes of traffic processed and contracted fees. Generally, we recognize products and other services revenue in accordance with contract terms.

Advertising and Promotional Costs

We expense costs of advertising and promotions, including checks used to acquire customers, as incurred. Advertising and promotional expenses were \$1,985, \$2,526 and \$2,148 in 1997, 1996 and 1995, respectively.

Investment Tax Credits

We amortize investment tax credits as a reduction to the provision for income taxes over the useful lives of the property that produced the credits.

Earnings Per Share

We calculate earnings per share in accordance with Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share." We use the weighted-average number of common shares outstanding during each period to compute basic earnings per common share. Diluted earnings per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares are additional common shares assumed to be exercised.

Cash Equivalents

We consider all highly liquid investments with original maturities of generally three months or less to be cash equivalents.

Property, Plant and Equipment

We state property, plant and equipment at cost, unless impaired, and determine depreciation based upon the assets' estimated useful lives using either the group or unit method. The group method is used for most depreciable assets. When we sell or retire assets that were depreciated using the group method, we deduct the cost from property, plant and equipment and accumulated depreciation. The unit method is used primarily for large computer systems and support assets. When we sell assets that were depreciated using the unit method, we include the related gains or losses in operating results.

We use accelerated depreciation methods primarily for digital equipment used in the telecommunications network, except for switching equipment placed in service before 1989 and certain high technology computer processing equipment. All other plant and equipment, including capitalized software, is depreciated on a straight-line basis.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Licensing Costs


Licensing costs are costs incurred to develop or acquire cellular, personal communications services (PCS) and messaging licenses. Generally, amortization begins with the commencement of service to customers and is computed using the straight-line method over a period of 40 years.

Goodwill

Goodwill is the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for as purchases. We amortize goodwill on a straight-line basis over the periods benefited ranging from five to 40 years. Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount, a loss is recognized for the difference between the fair value and carrying value of the asset.

Derivative Financial Instruments

We use various financial instruments, including derivative financial instruments, for purposes other than trading. We do not use derivative financial instruments for speculative purposes. Derivatives, used as part of our risk management strategy, must be designated at inception as a hedge and measured for effectiveness both at inception and on an ongoing basis. Gains and losses related to qualifying hedges of foreign currency firm commitments are deferred in other assets or liabilities and recognized as part of the



underlying transactions as they occur. All other foreign exchange contracts are marked to market on a current basis and the respective gains or losses are recognized in other income – net. Interest rate differentials associated with interest rate swaps used to hedge AT&T's debt obligations are recorded as an adjustment to interest payable or receivable with the offset to interest expense over the life of the swaps. If we terminate an interest rate swap agreement, the gain or loss is recorded as an adjustment to the basis of the underlying asset or liability and amortized over the remaining life. Cash flows from financial instruments are classified in the Consolidated Statements of Cash Flows under the same categories as the cash flows from the related assets, liabilities or anticipated transactions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as long-term contracts, allowance for doubtful accounts, depreciation and amortization, employee benefit plans, taxes, restructuring reserves and contingencies.

Concentrations

As of December 31, 1997, we do not have any significant concentration of business transacted with a particular customer, supplier or lender that could, if suddenly eliminated, severely impact our operations. We also do not have a concentration of available sources of labor, services, or licenses or other rights that could, if suddenly eliminated, severely impact our operations.

Reclassifications

We reclassified certain amounts for previous years to conform with the 1997 presentation.

2. Discontinued Operations

On September 20, 1995, AT&T announced a plan, subject to certain conditions, to separate into three independent, publicly held, global companies: communications services (AT&T), communications systems and technologies (Lucent Technologies Inc., "Lucent") and transaction-intensive computing (NCR Corporation, "NCR"). In April 1996 Lucent sold 112 million shares of common stock in an initial public offering (IPO), representing 17.6% of the Lucent common stock outstanding. Because of AT&T's plan to spin off its remaining 82.4% interest in Lucent, the sale of the Lucent stock was recorded as an equity transaction, resulting in an increase in AT&T's additional paid-in capital at the time of the IPO. In addition, in connection with the restructuring,

Lucent assumed \$3.7 billion of AT&T debt in 1996. On September 30, 1996, AT&T distributed to AT&T shareowners of record as of September 17, 1996, the remaining Lucent common stock held by AT&T. The shares were distributed on the basis of .324084 of a share of Lucent for each AT&T share outstanding.

On October 1, 1996, AT&T sold its remaining interest in AT&T Capital for approximately \$1.8 billion, resulting in a gain of \$162, or \$.10 per share, after taxes.

On December 31, 1996, AT&T also distributed all of the outstanding common stock of NCR to AT&T shareowners of record as of December 13, 1996. The shares were distributed on the basis of .0625 of a share of NCR for each AT&T share outstanding on the record date. As a result of the Lucent and NCR distributions, AT&T's shareowners' equity was reduced by \$2.2 billion. The distributions of the Lucent and NCR common stock to AT&T shareowners were non-cash transactions totaling \$4.8 billion which did not affect AT&T's results of operations.

On July 1, 1997, AT&T sold its submarine systems business (SSI) to Tyco International Ltd. for approximately \$850, resulting in an after-tax gain of \$66, or \$.04 per share.

On October 20, 1997, AT&T announced its plans to sell AT&T Universal Card Services, Inc. (UCS). On December 17, 1997, AT&T entered into an agreement with Citicorp to sell UCS for approximately \$3.5 billion. In addition, the two companies signed a 10-year co-branding and joint-marketing agreement. The sale is subject to regulatory approval and is expected to be completed by the second quarter of 1998.

The consolidated financial statements of AT&T have been restated to reflect the dispositions of Lucent, NCR, AT&T Capital, SSI and other businesses as well as the pending sale of UCS as discontinued operations. Accordingly, the revenues, costs and expenses, assets and liabilities, and cash flows of these discontinued operations have been excluded from the respective captions in the Consolidated Statements of Income, Consolidated Balance Sheets and Consolidated Statements of Cash Flows, and have been reported through the dates of disposition as "Income(loss) from discontinued operations," net of applicable income taxes; as "Net assets of discontinued operations," and as "Net cash used in discontinued operations" for all periods presented.

In 1997 we adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Among other provisions, this standard requires that in connection with the transfer of financial assets, liabilities incurred should be measured at fair value and retained interests should be recorded as a portion of the original carrying amount of the transferred financial assets. This standard applies only to UCS and resulted in a substantial benefit to income from discontinued operations for the year.

Notes to Consolidated Financial Statements

Summarized financial information for the discontinued operations is as follows:

	1997	1996	1995
Revenues	\$ 1,942	\$ 23,979	\$ 31,164
Income(loss) before income taxes	150	(180)	(4,043)
Net income(loss)	100	173	(2,896)
Current assets	7,734	7,590	
Total assets	7,808	7,979	
Current liabilities*	5,602	6,190	
Total liabilities*	6,707	6,469	
Net assets of discontinued operations	\$ 1,101	\$ 1,510	

* Current liabilities include \$5,224 and \$5,706 of debt maturing within one year and total liabilities include an additional \$1,093 and \$170 of long-term debt at December 31, 1997, and December 31, 1996, respectively, all of which are payable to AT&T.

The income(loss) before income taxes includes allocated interest expense of \$45 and \$134 in 1996 and 1995, respectively. Interest expense was allocated to discontinued operations based on a ratio of net assets of discontinued operations to total AT&T consolidated assets. No interest expense was allocated to discontinued operations in 1997 due to the immateriality of the amounts; however, UCS recorded direct interest expense of \$297, \$383 and \$626 in 1997, 1996 and 1995, respectively, primarily related to the amounts payable to AT&T.

46.

3. New Accounting Pronouncements

Effective with the first quarter 1998 we will adopt SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes the standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) as part of a full set of financial statements. This statement requires that all elements of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Since this standard applies only to the presentation of comprehensive income, it will not have any impact on AT&T's results of operations, financial position or cash flows.

Beginning with the 1998 annual report we will also adopt SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes the standards for the manner in which public enterprises are required to report financial and descriptive information about their operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information are required to be disclosed for each operating segment. In addition, this standard requires the annual disclosure of: information concerning revenues derived from the enterprise's products or services; countries in which it earns revenue or holds assets, and major customers.

4. LIN Broadcasting

In 1995 we acquired the remaining 48% of LIN Broadcasting Corporation (LIN) for approximately \$3.3 billion. The purchase price was allocated to the fair value of assets acquired of \$4.0 billion and the fair value of liabilities assumed of \$.7 billion.

On August 12, 1997, AT&T entered into an agreement to sell its 45% common share interest in LIN Television Corporation, a subsidiary of LIN, for approximately \$641 to Hicks, Muse, Tate and Furst Incorporated ("Hicks Muse"). Subsequently, in response to a competitive offer, Hicks Muse increased their bid to \$742. The sale is subject to various conditions, including approval by the Federal Communications Commission. If approved, the sale is expected to close in early 1998. In a separate agreement, AT&T agreed to sell WOOD-TV, its television station in Grand Rapids, Michigan, for approximately \$123, subject to certain adjustments, upon the completion of the sale of its interest in LIN.

5. Supplementary Financial Information

Supplementary Income Statement Information

For the Years Ended December 31	1997	1996	1995
Included in Depreciation and Amortization			
Amortization of licensing costs	\$ 163	\$ 170	\$ 133
Amortization of goodwill	51	52	74
Included in Selling, General and Administrative			
Research and development expenses	\$ 829	\$ 822	\$ 732
Other Income - Net			
Interest income	\$ 28	\$ 18	\$ 38
Minority interests in earnings of subsidiaries	(12)	(15)	(17)
Net equity earnings from investments	35	67	103
Officers' life insurance	68	74	73
Sale/exchange of cellular investments	75	158	64
Gain on sale of Skynet	97	-	-
Miscellaneous - net	125	88	23
Total other income - net	\$ 416	\$ 390	\$ 284
Deducted from Interest Expense			
Capitalized interest	\$ 254	\$ 193	\$ 107